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SUBJECT: BRAZIL'S BANESTADO INVESTIGATION ENDS IN A FIASCO

REF: A. 03 BRASILIA 1846

[B](#). 03 BRASILIA 2365

[C](#). 03 BRASILIA 3292

[1](#)1. (SBU) SUMMARY. A year and a half after its promising start, the Brazilian Congress's "Banestado" inquiry --an investigation into a vast money-laundering scheme involving hundreds of Brazilian politicians, criminals, and businesspersons-- has come to an inglorious end. The investigative committee never looked at all of the voluminous documents in its possession, and in recent months, politicized leaks from the committee's files tarred public figures and damaged the reputations of the committee and its leaders. On December 14 the committee finally issued its final report: a carefully-worded document that drew charges that it was protecting high-level politicians. It then issued a counter-report, equally politicized, a week later. Whether or not either report is ever formally approved by Congress, the long life and pathetic death of the Banestado inquiry represent not only a missed opportunity to conduct a serious investigation into a huge corruption scheme, but they also undermine the credibility of all other congressional inquiries present and future. The Brazilian Federal Police and Public Prosecutor will continue with their own investigations. END SUMMARY.

BANESTADO - BILLIONS LAUNDERED

[1](#)2. (SBU) "Banestado" was the name of the State Bank of Parana in southern Brazil which, during the 1990s, was at the center of a massive scheme by which drug lords, business owners, and political parties laundered illicit cash through phony bank accounts set up by money-changers in the Foz de Iguacu area. Much of the money was transferred to the Banestado branch and other financial houses in New York --including the notorious Beacon Hill-- and then transferred again to tax haven countries. Investigators believe as much as US\$30 billion may have been laundered by the complicated scheme. In 2000, Banestado was privatized and sold to Itau Bank, and the pre-sale examination of its records tipped investigators to the money laundering.

HIGH-LEVEL SUSPECTS

[1](#)3. (SBU) Well-known figures whose names have come up during the Banestado inquiry include: former Sao Paulo Governor and current Federal Deputy Luiz Antonio Fleury; former PSDB party Treasurer Ricardo Sergio, who may have funded the party's campaigns with illegal cash; leading PFL Senator Jorge Bornhausen whose family was linked to one of the suspect banks; former Sao Paulo Mayor Paulo Maluf, whose massive embezzlement schemes on city contracts while he was in office are still being investigated; former Parana Governor Jaime Lerner; former Sao Paulo Mayor Celso Pitta; current Central Bank President Henrique Meirelles; and former Bank of Brazil President Cassio Casseb. Some of these individuals may not have been involved in wrongdoing, but only had their names leaked for partisan purposes.

CONGRESS RELUCTANTLY OPENS AN INQUIRY

[1](#)4. (SBU) With the political stakes so high, and with little confidence in the Federal Police investigation, Congress reluctantly set up a joint "Parliamentary Inquiry Committee" (CPI) in June 2003, chaired by Senator Antero Paes Barros (of the opposition PSDB) with Deputy Jose Mentor (from President Lula's PT) as rapporteur. A CPI can call witnesses and issue subpoenas, but cannot issue indictments. A CPI's final product is a written report that the Federal Police and Prosecutor can use in their investigations. Several of the CPI's members, including Sen. Barros and Dep. Mentor, visited New York and Washington to meet with US law enforcement authorities in 2003 accompanied by embassy Legatt and returned with documents related to the case.

[1](#)5. (SBU) The term of the Banestado CPI was repeatedly extended --it was due to conclude its investigation in December 2003, but only issued its final report in December [2](#)004. In the meantime, it called many mid-level banking and technical witnesses to testify but never called any of the high-profile politicians. The CPI subpoenaed some 1,400 confidential bank and telephone records of individuals and

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businesses, but then was not able to sort through all the cartons of sensitive documents it collected (the material reportedly included details on 1.6 million financial transactions).

THE CPI RUNS OFF THE RAILS

16. (SBU) By mid-2004, the CPI had become polarized along party lines. The situation was worsened by party squabbling in the runup to the October 2004 municipal elections. The CPI's two leading officials (Sen. Barros and Dep. Mentor) are from the PT and PSDB --the same two parties that went head-to-head in many of the key races in October. Leaks of sensitive information from the CPI's files, implicating well-known politicians, began showing up in the newspapers in June and July. For example, one leak raised suspicions that Central Bank President Henrique Meirelles used the Banestado network to hide undeclared assets, leading the administration to push through a law giving him the legal protections of a cabinet official: criminal charges against him will be heard only by the Supreme Court and not a common court. The leaks then led to counter-charges that some committee staffers may have been charging extortion fees to destroy incriminating files. Next, the fact that the CPI's rapporteur, Dep. Mentor, subpoenaed many more bank and phone records than he could ever review raised suspicions that he was on a fishing expedition against PSDB-associated officials. Finally, the committee simply lacked good sense and failed to show due diligence in the course of its investigations, for example not calling important witnesses while focusing on procedural details.

DEPRESSING FINAL REPORT

17. (CPI) On December 14, the rapporteur, Dep. Mentor, issued his 1,500 page report, which requests prosecutors to indict 91 individuals and proposes amnesty for anyone else if they repatriate their money to Brazil. Only two of the 91 names are well-known: former-Sao Paulo Mayor Celso Pitta and former-Central Bank President (under President Cardoso) Gustavo Franco. Opposition parties quickly complained that the report was one-sided. For example, it cites Franco for entirely official acts when he implemented mechanisms to regulate currency flows in the 1990s. Meanwhile, the report fails to name Paulo Maluf --widely believed to have embezzled hundreds of millions of dollars during his term as Sao Paulo mayor in the 1990s. Opposition leaders suggested that Mentor, a close ally of Sao Paulo Mayor Marta Suplicy, kept Maluf's name out of the report in return for Maluf supporting Suplicy's reelection bid in October 2004. Suplicy lost anyway.

18. (SBU) In response, Dep. Mentor hinted that the CPI's Chairman, Sen. Barros, failed to question a Brazilian crime boss now jailed in Uruguay, who allegedly bankrolled Barros's last campaign. Mentor also pointed out that all of the CPI's files are being turned over to the Federal Police and Public Prosecutor's Office, whom he urges to conduct thorough investigations. The craziness did not stop there. A week after Mentor issued his report, Sen. Barros issued his own counter-report in which he calls for the indictment of both Maluf and current Central Bank President Meirelles. The committee is supposed to vote approval of the final report to make it official. With competing reports, a bitterly divided committee, and Congress about to go into recess until February, it seems unlikely that either report will be approved this year, if ever.

COMMENT - ENOUGH BLAME TO GO AROUND

19. (SBU) Congress typically establishes CPI inquiries in high-profile cases, where there is a concern that law enforcement authorities, if they were acting without the political cover of a CPI, could be subject to political pressures. Not surprisingly, many CPIs turn into grandstanding opportunities for congress, but sometimes they succeed in focusing public attention on important issues. The Banestado CPI reached a new nadir because it made no significant findings in its investigations and it undermined rather than supported the ongoing Federal Police and Prosecutor's investigations. When it turned into a partisan food fight (with Sen. Barros calling Dep. Mentor a "Joseph Goebbels follower, who thinks that if you tell a lie one hundred times that it becomes the truth"), it sullied the image of all CPIs, likely leaving the public far less willing than ever to have confidence in Congress's ability to carry out a thorough and transparent inquiry. There is enough blame to go around in the Banestado case. DANILOVICH